



GREMLIN INDUSTRIES
DETAILED CORPORATE HISTORY

GREMLIN INDUSTRIES, INCORPORATED was organized as a Delaware Corporation in early 1970. The initial year of operation was essentially limited to the purchase and sale of a single piece of real estate.

1971 saw formation of TRANSPEC SALES DIVISION, which concerned itself with acquisition and sales of integrated circuits. Engineering efforts were directed toward research and development of numerous products. Sales for 1971 were approximately \$31,000.00

1972 began with a move into larger quarters and the initiation of small-scale production of an earlier development, the Model 7117 Food Timer. The first quarter of 1972 brought a production contract from Foodmaker Corporation, and development contracts from numerous organizations (i.e. Scripps Institution of Oceanography, California Division of Highways, Naval Underwater Systems Center, Structural Behavior Engineering Labs).

Corporate management was reorganized during the second quarter. The present principals of the corporation, H. F. Fogleman, G. L. Hansen, and G. A. Candelore acquired the stock of inactive stockholders, C. E. Grindle and R. Montgomery.

Third quarter sales continued to accelerate, reflecting growth in the food timer and geo-physical products. A development program was begun to develop an electronic wall game that showed considerable sales potential. Because analysis showed small improvement in integrated circuit operations and little growth potential on low-volume products, it was decided that the company should divest itself of all operations of questionable profit potential.

During the fourth quarter, the integrated circuit inventory was liquidated to provide capital for engineering

on the electronic game and contracts to develop and fabricate long leadtime tooling. Demonstration of the game prototype brought enthusiastic response from the game industry. Foodmaker Corporation also released additional contracts for equipment for their fast food business.

Because of company growth and production volume, a stock control system was developed and instituted during the fourth quarter. Plans were formulated for a move into larger facilities during the first quarter of 1973 due to anticipated sales and production of the electronic wall game.

Sales for 1972 were \$87,000.00.

During the first quarter of 1973, GREMLIN INDUSTRIES moved into new and larger facilities at 7030 Convoy Court. Production of the fast food products continued at an increasing rate. Tooling and fixtures for the electronic wall game were delivered, and ten prototype units were built for demonstration and market testing. The game was publicly introduced at the NAMA Convention in San Diego during March.

The second quarter saw completion of a highly successful market test for the game. Production of the games began in the third quarter, and several distributors were named to represent the company in the Western United States. Additional space was leased to facilitate production, and additional employees were added.

The fourth quarter of 1973 brought increased production of the game. A private showing of the game at the MOA Show in Chicago produced enthusiastic response, and shortly thereafter the number of distributors was doubled. The company received follow-on orders from Foodmaker, and it was again necessary to add employees and lease additional space.

Sales for 1973 were \$285,000.00.

During the first quarter of 1974, GREMLIN added several new distributors for its game products and began to aggressively pursue sales in the Central and Eastern areas of the Country.

In the second quarter of 1974, it became apparent that corporate growth was going to continue unabated and the need for manufacturing space was again becoming critical. The company contacted the Economic Development Corporation to assess the possibility of purchasing city-owned land to erect an office and manufacturing facility. The Economic Development Corporation investigated the company,

and in due course approved GREMLIN INDUSTRIES for the purchase of 2.78 acres of land on Aero Drive. The company immediately began to fulfill several conditional requirements for the city: Approval was obtained from the Research Park Committee (a prerequisite to purchase), an Environmental Impact report was filed and subsequently approved, and the company agreed to the employment requirements of the city.

Engineering was completed on the TRAPSHOOT Game during 1974 and market surveys produced an excellent response. The company showed the game at the 1974 MOA Convention in Chicago and received more and 200 pre-production orders.

Additional space was acquired and more employees were added.

Sales for 1974 were \$885,000.00.

During the first quarter of 1975, GREMLIN began making deliveries on the TRAPSHOOT Game. The game was well received, and the first units were shipped into Europe.

During the second quarter of 1975, a contractor was selected for the building project, architectural engineering was completed for a two-story office and manufacturing facility of approximately 55,000 square feet, and plan approval was obtained from the City of San Diego. GREMLIN also took delivery on the first peripherals for a new computer system designed to eliminate many inventory and manufacturing delays and streamline the accounting and administrative functions of the corporation.

Additional employees were hired and more space was added. Total employment now stands at 45 persons and GREMLIN leases 13,500 square feet of office and manufacturing space.

Gremlin estimates that the company will require in excess of 20,000 square feet by early 1976 and will employ more than 90 persons.

Sales for the first half of 1975 were in excess of \$800,000.00.

Sales for 1975 are estimated at \$2.0 million.

Sales projections for 1976 show \$4.0 million.

GREMLIN INDUSTRIES, INC.

A corporation located at 8401 Aero Drive, San Diego, whose primary business is the manufacture and sale of proprietary products connected with coin operated amusement devices.

Company is owned in the following ratios:-

	<u>Shares</u>	<u>%</u>
H. Frank Fogleman	223	46.56
G. L. Hansen	103	21.50
G. A. Candelore	103	21.50
ESOT	<u>50</u>	<u>10.44</u>
	479	100.00

GREMLIN ASSOCIATES

The three principals above own majority interest in a limited partnership called GREMLIN ASSOCIATES. This partnership owns land and building premises occupied by GREMLIN INDUSTRIES, INC.

H. Frank Fogleman	26.34%	} General Partners
G. L. Hansen	26.33%	
G. A. Candelore	26.33%	
W. Ray Foster	6.00%	
E. Borunda	2.50%	
3 limited partners	<u>12.50%</u>	
Total	100.00%	

NOVAL INCORPORATED

The three principals above own stock in NOVAL, INC, 8401 Aero Drive, San Diego, whose primary business is the manufacture and sale of small, desk type computers, directed toward home and small business use.

Company is owned in the following ratios:

	<u>Shares</u>	<u>%</u>
H. Frank Fogleman	510	28.34
G. L. Hansen	510	28.33
G. A. Candelore	510	28.33
Others	<u>270</u>	<u>15.00</u>
Total	1,800	100.00%

Gremlin Industries, Inc. has an ESOT which owns 50 shares. Ownership of these shares are:

H. Frank Fogleman	13.647%	} 32.567%
G. L. Hansen	9.738%	
G. A. Candelore	9.182%	
Others	<u>67.433%</u>	
Total	100.000%	

SALE OF STOCK

TAITO to purchase 50 shares of ESOT for \$208,768 (keep ESOT plan but convert to Profit Sharing to retain key personnel) plus a contingency earn out price (see below)

TAITO to purchase 429 shares of three principals for \$1,791,232 plus a contingency earn out price (see below).

Payment schedule for purchase of 479 shares:

1. Cash down: \$500,000.00
2. Guarantee payments (plus interest, not chargeable to earn-out profits)

Cash	January 5, 1979	\$500,000
Cash	July 1, 1979	\$500,000
Cash	January 5, 1980	\$250,000
Cash	July 1, 1980	\$250,000

Contingency earn out formula:

Sellers to receive as additional compensation for sale of stock an amount equal to 25% of pretax earnings for a period of three years.

CONSIDERATIONS IN ADDITION TO STOCK PURCHASE

1. In consideration of employment and/or consultant contracts and covenants not to compete, principal sellers of stock to receive interest free loans for a five-year period. Such loans to be secured in a manner suitable to needs of lender. Loans to be made as follows:

Fogleman	\$1,000,000
Hansen	500,000
Candelore	500,000

2. A five-year loan of \$500,000, at low interest rate, to be made to NOVAL, INC. at closing, in consideration of covenant not to compete. Loan payment terms: interest only for three years; then \$250,000 plus interest paid at end of fourth and fifth years.

SECURITY NEEDS

1. TAITO to provide equity capital or loans to bring and maintain working capital to a 2 to 1 ratio.
2. Cause \$153,000 owed to GREMLIN ASSOCIATES to be paid by closing date.
3. Cause \$150,000 owed to E. Borunda to be paid by closing date.
4. Cause \$250,000 note from GREMLIN INDUSTRIES to become an unsecured note obligation, releasing GREMLIN ASSOCIATES real estate as collateral.
5. Cause stock controlled by purchaser of GREMLIN INDUSTRIES to be used as collateral for unpaid notes due sellers of GREMLIN INDUSTRIES stock; stock returned to sellers if payments not made as scheduled.
6. In order to honor contingency payments predicated on earnings, set up of company purchasing GREMLIN must operate in a fashion so that earnings of GREMLIN are not distorted or diluted because of transactions between purchasing entity and related TAITO operations or other operations.
7. Until all guaranteed payments are made, sellers to have voting and management representation equivalent to 50% of shares sold during this period.

EMPLOYMENT CONTRACTS and OTHER

There should be employment contracts with all three principals though these contracts will necessarily be of varying periods with consequent variations in compensation. Mr. Hansen's contract may be not a salary contract but a consultant-type. Various perks may be agreed upon such as interest free or low interest loans, automobiles, memberships, travel, etc.

Dated: May 8, 1978

GREMLIN INDUSTRIES, INC.

By _____